SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

INSIDE SOUTHERN AFRICAN TRADE

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After our in-depth look at the WTO negotiations in Hong Kong in December, we return to our usual format in this fourth issue of *Inside Southern African Trade (INSAT)*.

This issue takes a critical look at the role of the private sector in shaping the regional business environment through its participation in the policy process.

We highlight a number of instances where the private sector has lobbied for policy changes that have improved the circumstances in which it operates. On page seven we look at the significant tax cuts recently introduced by the Government of Lesotho and on page 19 we recount the success of the Botswana Cattle Producer's Association in obtaining higher prices for their cattle from the monopoly Botswana Meat Commission.

In reading through the issue, however, you will realize that business participation in the policy process at large has been mainly *ad hoc*, sectoral, and uneven across the region.

Governments of the region are in the process of negotiating or considering trade agreements with potentially far-reaching and pervasive consequences. The proposed trade agreement between the US and the Southern African Customs Union (SACU), for example, may include provisions that could have implications for industrial policy, labor policy, investment and trade in services, among others.

There is clearly an imperative for the private sector to engage not only at the sectoral and national level, but also at the regional (referring here to SACU, SADC and COMESA) and multilateral levels where decisions are taken which could impact significantly on the environment in which the private sector does business.

We hope that you will enjoy this issue of INSAT and invite you to share your opinions and suggestions with us.

INSIDE THIS ISSUE

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

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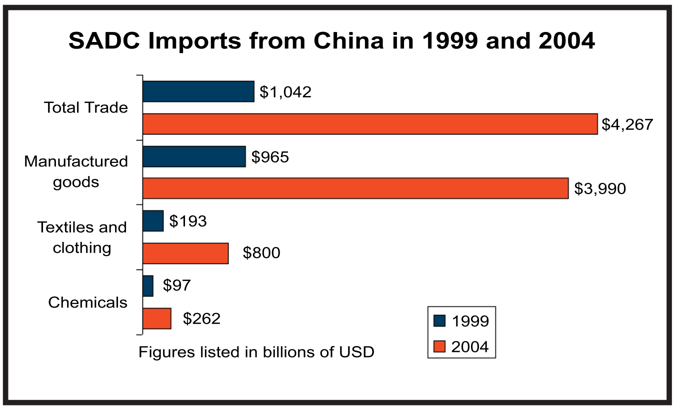
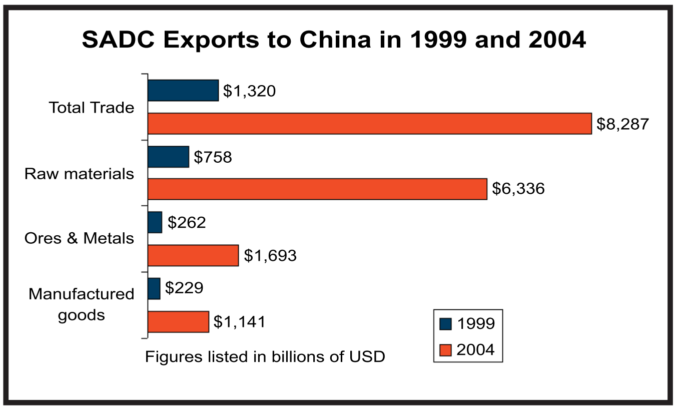
AROUND SOUTHERN AFRICA

AMID ANXIETY OVER TRADE WITH CHINA, MANY SEE BENEFITS

The idea that China may flood Southern Africa with cheap goods, undercutting local industries and threatening the livelihood of thousands of workers, fills many around the region with dread. Many industry sources and analysts in the region warn that the recent surge in Chinese exports to Southern Africa poses a serious threat to the region's industry, especially in the manufacturing sector.



SADC Imports from China in 1999 and 2004



SADC Exports to China in 1999 and 2004

Regional imports from China grew dramatically over the past few years, reaching a record US$4.2 billion in 2004 compared to a little over US$1 billion five years earlier. More than 93 percent of these imports were manufactured goods.

By comparison, regional exports to China, which also saw a dramatic increase from US$1.3 billion to over US$8.2 billion over the same period, were dominated by raw materials with petroleum and petroleum products accounting for about 57 percent of total exports in 2004. Manufactured products made up less than 14 percent of total regional exports to China in 2004 – down from 20 percent five years earlier. While manufactured goods accounted for 50 percent of South Africa's exports to China in 1993, this figure dropped dramatically to only eight percent in 2003. South Africa, the region's economic powerhouse, ran a US$2.5 billion trade deficit with China in 2004.

The immediate impact of trade with China, many argue, is a reinforcement of traditional trade patterns between Southern Africa and other countries, thus undermining efforts by countries in the region to build an industrial base and diversify their exports toward manufactured goods.

Nowhere has the impact of Chinese exports to the region been more evident than in the textile sector. However, other manufacturing sectors have also seen a dramatic growth in Chinese exports to the region. Chinese exports of machinery and transport equipment to SADC reached US$1.5 billion in 2004 – 50 percent higher than total Chinese exports to the region in 1999.

> ***"I think all countries have to accept that China is the economy of tomorrow. We need to learn to work and cooperate with China and find out what we can sell to them."***

But some analysts and business people in the region are beginning to recognize that China brings significant benefits and even opportunities to the region along with its cheap goods.

First, analysts point out, Southern Africa is benefiting from China's growing appetite for agricultural commodities, metals and oil. "In this respect, China and Africa are ideal partners. Africa is a treasure trove of metals and minerals and has huge agricultural potential," wrote Lyal White, Senior Researcher for Asia and Latin America at the South African Institute of International Affairs (SAIIA), in a recent article about growing trade relations between China and Africa.

The growing Chinese demand for commodities has driven up commodity prices, thus softening the impact of increasing oil prices on oil-importing countries in the region.

"The oil shock, which one would have thought would have been devastating for Africa's economies, has been offset quite substantially by rises in [the prices of] other commodities [that] those economies produce," says John Page of the World Bank.

At the same time, China is also promising increased access for commodities from Africa into its market.

"The Chinese Government will adopt more effective measures to facilitate African commodities' access to the Chinese market and fulfill its promise to grant duty-free treatment to some goods from the least developed African countries, with a view to expanding and balancing bilateral trade and optimizing the trade structure," said the Centre for

Chinese Studies in a recent paper.

Second, Chinese imports have placed a downward pressure on inflation in the region. China's exceptional ability to produce cheaply has pushed down the prices of many manufactured goods worldwide, including in Southern Africa. Thanks to China, consumers in the region now have access to a wide variety of manufactured goods at affordable prices. Loago Raditedu, Executive Director of the Exporters Association of Botswana, says Chinese exports are "a blessing" for Botswana when it comes to electronic products, for example. As a net importer of electronic goods, Botswana, he says, has been enjoying a wide variety of cheap electronic products that would not have been affordable to most consumers, were it not for Chinese goods.

Third, China has been increasing its investments in Africa, including in Southern Africa. Investments have been made in a wide range of areas, including trade, resource development, transport, agriculture and the processing of farm products. Chinese firms are also taking on significantly more construction projects, most notably in infrastructure. While China's investments in Africa have often been criticized for lack of transparency and for undermining the principles of good governance and human rights, they still provide a much needed supply of capital to the continent.

Finally, according to White, "Africa can learn from China's process of economic development and liberalization, which has turned it into an investment magnet and one of the most competitive markets in the world. An improved investment climate in Africa will guarantee a reliable supply of resources and unlock vast potential in the labor market," White wrote.

Industry sources say that growing trade with China, while posing serious challenges to the private sector, could be turned into opportunities for growth in the region.

"I think all countries have to accept that China is the economy of tomorrow. We need to learn to work and cooperate with China and find out what we can sell to them," says Elias Dewah, the Executive Director of the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM).

Hoosen Rasool, the head of the South African Clothing, Textile, Footwear and Leather Sector Education and Training Authority (CTFL Seta) argues that "the solution is to shift our thinking towards a strategy that will embrace improving the skills of the workforce, upgrading equipment and targeting the value-added market segment". "China does not offer low-cost unskilled labor – it offers low-cost skilled labor," he was quoted by *www.AGOA.Info* as saying.

Raditedu agrees that the private sector bears a big responsibility in facing the Chinese challenge.

"We have a lot to do. At the moment we are only buying from China because their products are cheaper," he says. "It does not make sense for countries [in the region] to wait for tariffs to come down to enable them to increase their exports to China because the Chinese themselves have not been stopped by duties," Raditedu continues. "They are already flooding our markets and we [in the private sector] have to pull up our socks."

ANGOLA, NAMIBIA TO SIGN A PREFERENTIAL TRADE AGREEMENT

Angola and Namibia are finalizing a preferential trade agreement that will put an end to high duties slapped on a wide range of Namibian exports to Angola at the beginning of 2003 in an effort by the Angolan Government to raise revenue for its post-war reconstruction efforts.

The trade agreement represents a step forward in the implementation of the bilateral Trade and Economic Cooperation Agreement signed between the two countries in March 2004.

The Namibian Minister of Trade and Industry, Immanuel Ngatjizeko, said the two countries have already drafted terms of reference for the agreement and are working on the final text. The agreement will be valid for 10 years with an option to renew.

According to a source close to the negotiations, the agreement will not specify which products will benefit from liberalization. It is also not yet clear by how much tariffs on the traded products will be cut. Angola imports a large number of products from Namibia, including meat, foodstuffs, cement, farming equipment and building materials.

The agreement signals a turnaround by the Angolan President, Eduardo dos Santos, who told members of the Namibian Chamber of Commerce and Industry (NCCI) at the signing ceremony of the Trade and Economic Cooperation Agreement in 2004 that duties on Namibian exports to Angola would remain in place until Angola has rebuilt the infrastructure destroyed during the country's 27-year civil war (which only ended in 2002).

Namibian companies have complained that the duties imposed by Angola have significantly undercut the profitability of exporting to their northern neighbor.

Sven Thieme, Chairman of Namibia Breweries, which exports beer and soft drinks to Angola, said in the company's 2005 Annual Report that exports to Angola continued to be problematic due to the high duty structure and complex import procedures introduced by Angolan authorities in 2003.

SOUTH AFRICAN GOVERNMENT TO ADDRESS CONSTRAINTS TO INVESTMENT, TRADE

After setting itself an ambitious growth target of six percent, the South African Government is now trying to address constraints to investment, trade, and growth in the country.

According to the National Treasury Director General, Lesetja Kganyago, a team headed by Deputy President Phumzile Mlambo-Ngcuka has identified six factors that have been hindering trade and investments in the country. These are currency volatility, infrastructure backlogs, barriers to entry and limited new investment opportunities, the burden placed on small and medium businesses by the regulatory environment, deficiencies in government delivery and skills shortages. Kganyago says these constraints are being addressed through the Accelerated and Shared Growth Initiative (ASGISA), which aims to boost South Africa's average economic growth rate to 6 percent between 2010 and 2014. To address infrastructure backlogs, he said, the Government is also planning to allocate part of the public sector's R320 (US$53) billion investment to infrastructure development over the next three years. Kganyago also noted that currency volatility, which is generally considered a key impediment to trade and investment in the country, has declined since the currency crisis of 2001. Meanwhile, the Department of Trade and Industry is developing a new industrial policy that will include new incentives for foreign and local investors.

Nimrod Zalk, Chief Director of Industrial Policy at the Department of Trade and Industry, told INSAT that some of the issues that will be addressed in the policy include cost structures, telecommunications infrastructure and skills shortages.

"The industrial policy document is being developed and will focus on targeted investment and strategic trade agreements," Zalk said.

SADC, ESA EFFORTS TO HARMONIZE POSITIONS FOR EPA TALKS STALL FOLLOWING CHIEF NEGOTIATORS' MEETING

While negotiations between Eastern and Southern Africa (ESA) and the EU entered the second phase after a meeting in Mauritius in February, efforts to harmonize the positions of SADC and ESA show little progress.

Neo Moroka, Botswana's Minister of Trade and Industry and Coordinator for SADC in the EU Economic Partnership Agreement (EPA) negotiations, met with his Rwandan counterpart, James Musoni, in Tanzania late last year.

"The meeting was for notes sharing and we are making progress," said Banny Molosiwa, Permanent Secretary at Botswana's Ministry of Trade and Industry. She declined to discuss the details of the meeting but revealed that a date for the next meeting has not been set.

Hon. Neo Moroka, Botswana's Minister of Trade and Industry and Chief Negotiator for SADC in the EPA Negotiations

Of the six regional groups in the African, Caribbean and Pacific countries negotiating EPAs with the EU, SADC is the only group whose members are negotiating under two different configurations.

Failure to coordinate the negotiating positions between SADC and ESA may lead to two conflicting agreements, thus undermining SADC's plans to launch a free trade area by 2008 and a customs union in 2010. The EPAs, which will replace the Cotonou Agreement between the EU and the ACP countries, are scheduled to take effect on January 1, 2008.

NAMIBIA FORMALIZES BUSINESS PARTICIPATION IN ECONOMIC POLICY MAKING

Namibia's Ministry of Trade and Industry has launched a new forum that, for the first time, will formalize and expand private sector participation in developing the country's economic and trade policies.

The National Trade Forum, launched in Windhoek by Nambia's Minister of Trade and Industry, Immanuel Ngatjizeko, brings together public institutions and key private sector players to discuss Namibia's economic and trade policies. According to the Ministry of Trade and Industry, the Government will also use the forum to seek input from the private sector on trade agreements that Namibia is currently negotiating with other countries.

According to the Ministry of Trade and Industry, the forum will be of "a consultative and advisory nature", and will meet every two months to deliberate on trade measures, regulations, investment and trade agreements, product and market development issues and any other issues relating to Namibia's economic development.

"[The forum] provides a platform for the Government and the private sector, for the latter to make its inputs and properly inform national positions and participation in international trade and investment," says the Ministry of Trade and Industry.

In explaining the reasons behind the creation of the forum, Ngatjizeko said that, until recently, Namibia's positions in bilateral and multilateral trade negotiations were primarily decided by government officials. But, he said, the Government came to realize that the private sector has a crucial role to play in formulating Namibia's positions in ongoing bilateral and multilateral trade talks.

Members of the National Trade Forum include the Namibia Chamber of Commerce and Industry, the Namibia Manufacturers Association and the Indigenous Business Forum.

The Government also hopes that the forum will identify new policies and measures that will help enhance the competitiveness of Namibian producers and the manufacturing sector in local and foreign markets.

Hennie Fourie, the Chief Executive Officer of the Namibian Manufacturing Association, an umbrella body of Namibia's manufacturing companies, hailed the establishment of the forum saying that it shows that the Government has adopted a more "development-oriented" approach.

NEWS BRIEFS

LACK OF PROGRESS CASTS SHADOW OVER US – SACU NEGOTIATIONS

U.S. Trade Representative Robert Portman last month said that the US might reconsider negotiations with members of the Southern African Customs Union (SACU) over those countries' failure to agree to the scope of an agreement.

"We don't want to walk away by any means if there's interest," Portman told reporters following a February 7 speech on African trade issues. "We will continue to be there to engage but we have to keep our standards up high."

Negotiations on a Free Trade Agreement between SACU and the US have reached a stalemate over disagreements on the scope of the negotiations. The US has been pushing for a comprehensive agreement that includes eventual full market access in all sectors. SACU negotiators, however, have been trying to negotiate a more limited deal that does not cover all aspects included in the standard U.S. Free Trade Agreement. SACU members have resisted launching negotiations on intellectual property rights, services, labor, environment, government procurement and investment.

South African officials who met with the Office of the U.S. Trade Representative late last month to see if the US would consider negotiating a free trade agreement with SACU (even if the countries did not make solid commitments on issues such as intellectual property rights and investment), returned empty handed.

UNIVISA FOR SOUTHERN AFRICA

In a bid to boost tourism by cutting red tape, Southern Africa will introduce a Univisa for SADC.

Tourist arrivals in the SADC region reached a record high with 15.1 million visitors in 2005, up from 12.2 million the previous year according to the Acting SADC Chief Director for Infrastructure and Services, Remmy Makumbe.

Makumbe told journalists at the recent SADC Council of Ministers' meeting in Gaborone that the Univisa will be in place by the 2010 Soccer World Cup. He said it would allow tourists to obtain a visa for one country which automatically allows them entry into other SADC member countries. "This is expected to introduce equity in the tourism sector and ensure that tourists get value for money by visiting several countries on a single visa," he said.

MALAWI – MOZAMBIQUE TRADE AGREEMENT SIGNED

Malawi and Mozambique recently signed a bilateral preferential trade agreement that provides for duty and quota-free treatment and removal of non-tariff barriers on most products traded between the two countries (it excludes sugar, beer, petroleum products, table eggs, dressed chickens, explosives, firearms, refined cooking oil, manufactured tobacco and Coca Cola and Schweppes-branded drinks). In order to qualify for preferential treatment, goods traded must contain a minimum of 60 percent local content in line with rules of origin and a 25 percent allowance for value addition. The agreement replaces a 1959 trade agreement signed between colonial rulers Portugal and the Federation of Rhodesia and Nyasaland (today Zimbabwe, Zambia and Malawi). Implementation of the agreement is expected to start in July 2007.

Businesses still face challenges on the road ahead as they seek to make the most of the agreement's potential to increase trade between the two nations. Grandford Banda, Malawi Export Promotion Council (MEPC) Research and Projects Manager, is quoted in an article on *andnetwork.com* as saying that language differences and Mozambique's complicated records system could present problems for Malawian traders. He also points to the strong links between Mozambican business owners and businesses in Portugal and India saying that it would take aggressive marketing by Malawian firms to break into the market.

SEYCHELLES TO REJOIN SADC?

SADC Executive Secretary Tomaz Salamão has confirmed that the Seychelles have requested to rejoin SADC.

Speaking at a press conference prior to the SADC Council of Ministers meeting in Gaborone in February, Salamão told reporters that the Foreign Minister of Seychelles had requested a special meeting with him where he expressed his country's intention to rejoin SADC. President Festus Mogae, Chairperson of SADC, also received a formal letter to this effect.

Seychelles' decision to rejoin SADC less than two years after becoming the first country ever to withdraw from the organization was announced by President James Michel during his delivery of the 2006 budget back in December 2005. It was not clear at the time whether the Seychelles had started membership negotiations with SADC.

When asked by INSAT, Mr. Salamão could not shed any light on what had brought about this 'change of heart' on the part of the Seychelles and did not give any indication as to how the request is being viewed by SADC other than to say that it will be considered by SADC Heads of State at their next meeting in Maseru, Lesotho, in August.

INSIDE THE PRIVATE SECTOR

AGAINST ALL ODDS KARAKULIA WEAVERS STAYS ITS COURSE

Karakulia Weavers, a Namibian company specializing in the production of hand woven carpets and wall hangings, has carved itself a niche among tourists to the region and is now poised to expand its marketing efforts internationally.

"… I must extract myself from the daily running of Karakulia and find [new] markets," says Jenny Carvill, Karakulia Managing Director, "Therefore my future plan is to make Karakulia a BEE [Black Economic Empowerment] company guiding the weavers on the design and setting up an overseas market."

Over the years, Karakulia has been able to retain its competitive position through a combination of original design, high quality products, and efficient and speedy turn around of orders. Its carpets, rugs and wall hangings made from carding, spinning, dyeing and weaving of pure karakul wool (high quality wool from a rare breed of sheep imported into Namibia from Uzbekistan) has turned Karakulia into a household name in Namibia and, over the years, allowed it to develop its international reputation.

"Our forwarding department also prides itself on efficiently dispatching parcels to our customers," says Carvill.

Karakulia's main clients are foreign tourists to the region. The company also reaches out to potential clients through its participation in exhibitions around the world and it is listed in several English and German travel guides.

"Karakulia is well-known in Germany and Finland, and has exported mainly through tourism worldwide," Carvill says.

Carvill, who admits that Namibian weavers cannot compete on price with large international manufacturers that rely on cheap labor and benefit from economies of scale, insists that such manufacturers "can never be like [Karakulia]".

Carvill says that she does not perceive Chinese products as a threat to Karakulia's trade because the "originality" of the company's products is the key element of its competitiveness in international trade.

"Even if [the Chinese] copy our pieces, the end products would not be the same unless they actually use the same material," she says.

Carvill established Karakulia Weavers in 1979 using her savings. She later borrowed money from the Development Corporation of Namibia to expand the company.

"Once the first loan was repaid I borrowed again to buy more equipment and employ more weavers," she says.

Carvill says that, with increased demand for their hand-woven products, the company has bought more looms and trained and employed more weavers including some disabled people.

Although there is strong competition from other weavers of karakul wool in Namibia, Carvill says the biggest threat to her company comes from weavers producing and selling machine-made imitations of Karakulia's carpets and rugs.

Karakulia also had to overcome the different challenges of doing business in the region, including retaining skilled workers and the effects of HIV and AIDS on its work force.

"Today we are a closely woven family of some fifty members," she says, adding that people are not only trained in the craft but also in office and computer work, management skills and design.

BOTSWANA PRIVATE SECTOR WELCOMES REFORMS BUT WARNS THAT MORE WILL HAVE TO BE DONE

The private sector in Botswana is welcoming recent efforts by the Government to improve the business environment, attract foreign investment and diversify the economy away from its reliance on diamonds, but warns that much remains to be done to eliminate constraints to doing business in the country.

Elias Dewah, the Chief Executive of the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM), says the recent measures would certainly help businesses but cautions that implementation of these reforms may be an issue. Citing amendments to the Trade Act that would expedite the issuance of trade licenses, Dewah says he is doubtful that the Government has put in place the necessary administrative structures to allow a "smooth" implementation of the changes.

The Government has undertaken several measures to improve the business environment and attract foreign direct investment (FDI) to the country, including the development of a new FDI strategy (which will also provide for the streamlining of the issuance of work and residence permits, a regulatory issue that has been identified as one of the main obstacles to FDI in the country) and reviews of the Industrial Development Act and the Companies Act.

But Keith Jefferis, an economic consultant and former Central Bank Deputy Governor, argues that the measures taken by the Government do not address the key constraints to private sector development and that they fail to address the various factors undermining investment in the country, which were outlined in a 2004 report by the World Bank's Foreign Investment Advisory Services (FIAS).

"For these [measures] to work, and really revitalize investment, they have to be radical, but I am concerned that they will not be radical enough," Jefferis said at a recent meeting on the budget analysis.

He argued that, for example, instead of trying to increase the efficiency of business licensing, the Government could have abolished trade and industrial licensing requirements altogether.

"The very existence of licenses that have to be renewed every year is time-consuming, expensive and burdensome, and places the future of a business venture in the hands of a committee of bureaucrats who probably know very little about the needs of businesses, and quite possibly care even less," he said.

The FIAS report, published in October 2003, identified a range of constraints to investment in Botswana including, shortage of land, high prices of serviced land, high rental and property prices, delays in registering businesses, and delays in recruiting skilled labor and obtaining work permits for skilled foreign labor.

The high costs of utilities and air transport, inadequate telecommunications infrastructure, and high interest and exchange rates were also among the constraints cited in the report.

LESOTHO INTRODUCES STEEP TAX CUTS TO REVIVE EXPORT SECTOR

The Lesotho Government presented a fiscal budget to parliament last month that seeks deep cuts on company taxes for a range of manufacturing sectors.

The budget, which was presented to parliament by Minister of Finance Dr. Timothy Thahane last month, would eliminate taxes on income generated from manufactured goods exported outside the Southern African Customs Union (SACU). The Government will also scale back company taxes from 35 percent to 25 percent and reduce taxes in the manufacturing and agriculture sectors from 15 percent to 10 percent.

While many sectors will benefit from the tax cuts, the measures appear to be primarily aimed at revitalizing the country's ailing textile industry.

Thahane also told parliament that the Government is planning to cooperate with Chinese businesses to address the problems facing the textile sector.

"Lesotho has invited China to be a partner in solving the problems and generating jobs; in forming joint ventures; training our people in quality assurance; and in the financing and construction of knitted fabric mills to anchor these textiles," Thahane said.

Thahane said the Government is implementing the tax cuts because it realizes that Lesotho's 35 percent company tax must now compete with more favorable rates both globally and regionally. He pointed out that given the close proximity of South Africa, companies operate across the border and pay tax in South Africa on income earned in Lesotho. South Africa imposes only a 29 percent tax on manufacturing companies.

Thahane said the tax cuts will encourage increased and diversified investment in manufacturing and attract new manufacturers.

The new tax rates will go into effect on April 1.

The Lesotho Revenue Authority has forecast a loss of 76 million Maloti in revenue in the 2005/2006 fiscal year as a result of the tax cuts.

But Retselisitsoe Mabote, an economist in the Research Department of the Central Bank of Lesotho, says the Government is hoping that the loss due to tax cuts will be offset by an increase in the total taxes collected due to growing business activities and increased employment. Mabote maintains that the tax cut will also encourage South African corporations currently operating in Lesotho to declare their profits there rather than in South Africa.

INSIDE THE DONOR COMMUNITY

NEW PROJECT LOOKS AT AG ISSUES IN THE REGION

The Food and Agriculture Organization (FAO) is launching a new initiative that will give SADC countries an opportunity to better address challenges in their agricultural sectors (including South Africa's dominance in the region). It is anticipated that more specific details of the project will be available after a stakeholders' meeting that is planned for late March in Pretoria.

The project is being launched by the FAO in association with SADC, the Southern African Confederation of Agicultural Unions (SACAU) and the SADC Employers Group (SEG).

According to the FAO's Policy Unit, South Africa alone contributes 67 percent of SADC's total GDP and 62 percent of the region's total external trade. And "although South Africa generates only 24 percent of the contribution of agriculture to GDP in the SADC region, South Africa provides half of the agricultural exports originating from SADC countries".

The project will consist of a concept paper, workshops, country-level studies and reports and dissemination activities and is expected to run for one year.

Among others, farmers' representatives from South Africa and the region, the Namibia Agricultural Trade Forum, agricultural economists, the Zambia Agriculture Consultative Forum, and representatives from governments and regional organizations will attend the meeting from March 28-29. The goals of the meeting are to finalize the budget, agree on the workplan, and appoint a steering committee.

According to Mr. Philippe Dardel of the FAO Subregional Office for Southern and East Africa in Harare, Zimbabwe, "the initiative is just starting and plans are still to be specified. More information will be available after the workshop organized at the end of March in Pretoria to precisely specify the plans under this initiative."

MOZAMBIQUE RECEIVES FUNDING FOR INFRASTRUCTURE AND TOURISM

Mozambique received funding late last year from the World Bank and Denmark to help the country develop its infrastructure and tourism sectors.

Denmark offered US$62 million to Mozambique to enhance the transport and communications infrastructures in the central and northern parts of the country.

National Telecommunications of Mozambique (TDM) received more than US$15 million in order to expand the national telecommunications broadband network in Quelimane, Mocuba, Nampula and Cuamba.

Another US$19 million will be used by the Mozambican Airport Company, ADM, to upgrade the Beira, Quelimane and Tete airports and US$27 million to clear the entrance channel to the port of Beira.

The World Bank also approved a US$20 million International Development Association credit to support the conservation of biodiversity and natural ecosystems in the country. The money will be used to promote economic growth and development through the sustainable use of natural resources by local communities in Mozambique.

US COMMITS NEW FUNDS TO AID ON FOOD, ANIMAL AND HEALTH STANDARDS

The United Sates has committed US$ 100,000 to help developing countries analyze and implement international standards on food safety and animal and plant health – sanitary and phytosanitary (SPS) standards.

The funds were committed through the Standards and Trade Development Facility (STDF), a joint effort by the World Trade Organization, the World Health Organization, the World Bank, the World Organization for Animal Health, and the Food and Agriculture Organization, which aims to support capacity building efforts in the area of food safety and SPS standards.

"This contribution builds on the U.S. commitment to help developing nations adopt science-based animal and plant health and food safety standards that are so critical to trade," said U.S. Agriculture Secretary Mike Johanns.

COMMONWEALTH HOSTS WORKSHOP ON EXPORT COMPETITIVENESS

Botswana's Acting Minister of Trade and Industry Moggie Mbaakanyi appealed to the Commonwealth Secretariat and other development partners to continue to offer capacity building training programs for developing countries in order to assist those countries to "reach the required levels of production efficiency".

She was addressing delegates at a three-day regional workshop on export competitiveness strategies in Gaborone, Botswana in March. Mbaakanyi said countries in the sub-Saharan region need to reorganize their business environments and improve infrastructure delivery.

"Several indicators and pointers to competitiveness in our economies paint a gloomy picture," she said, referring to shortfalls in the areas of business environment, infrastructure, cost of doing business, supply capacity and support services.

"Many of our business environments are still punctuated by a number of administrative barriers, which cause delays in the delivery of services," she added.

She also pointed to the lack of good roads, ineffective communications, shortage of power, water, serviced land, factory shells and other crucial services.

"The development and improvement of these areas should be [at the] top (...) [of] our development agendas if we are to attract much needed investment and increase our exports," she said.

The workshop was attended by representatives from Botswana, Namibia, Zambia, Mauritius, Lesotho, Swaziland, Malawi, Mozambique, Tanzania, Kenya and Uganda.

The workshop is the first of the Commonwealth workshops on export competitiveness and targeted for exporters in the private and public sector. Similar workshops will also be held for the Caribbean and the Pacific countries.

NEW WEBSITE FOR HORTICULTURAL PRODUCERS AND EXPORTERS IN COMESA

At the end of January COMESA launched a web-based directory of private sector entities active in the agriculture sector in East and Southern Africa. The website (*www.afribusiness.net*) gives agribusiness in COMESA access to various directories of growers, exporters, importers, processors and collateral service providers in 20 countries.

According to Mr. Chikakula Miti, Agricultural Development Consultant at the COMESA Secretariat, "what we are trying to do here is to have a link (...) [with] all the major horticultural producers in the region".

> Agriculture accounts for more than 32 percent of COMESA's Gross Domestic Product (GDP), provides a livelihood to some 80 percent of its labor force, accounts for approximately 65 percent of foreign exchange earnings and contributes more than 50 percent of raw materials to the region's industrial sector.

To date, however, only Egypt, whose Union of Producers and Exporters of Horticultural Crops (UPEC) co-owns the site with COMESA, has entered information into the system. "Some other COMESA member states have been called upon to submit contact details of their agribusiness entities. What we have done is that we have forwarded this information to member states so that they can help us – they can put into that website all the major horticultural producers that are operational in their countries. Countries as well as producers themselves can access the information. Any producer who wants to have their information posted on the website, they are free to do so," said Mr. Miti in an interview with INSAT.

Starting in April, a series of discussion forums will be launched on the site and a dedicated forum for the discussion of sanitary and phytosanitary (SPS) issues is planned for later this year.

Once fully operational, the website will also feature other critical information such as export prices, worldwide crop production statistics, recommendations on good production practice, lists of agro-experts and other related agribusiness information.

The website is part of a region-wide Agricultural Marketing and Regional Integration Project that was launched in April 2005 and is funded by the African Development Bank.

DFID FUNDS FOR INCREASED TRADE IN SOUTHERN AFRICA

On February 28 the UK Department for International Development (DFID) formally launched its Southern Africa Regional Plan which will see £20 (US$34.6) million this year, and up to £100 (US$173) million in the next five years pumped into Southern Africa to boost trade, create employment and combat HIV/AIDS.

According to Minouche Shafik, DFID's Director General for Regional Programs, the plan focuses on a regional approach to market access, peace and security and social services. In this respect, Mr. Shafik highlighted the importance of "regional public goods, such as roads and rail networks, ports, energy and communications [as] important for people to trade and do business, and access social services". Under the topic of social services, Mr. Shafik emphasized peace and security as well as HIV/AIDS as focus areas of the regional plan.

The regional plan places a strong emphasis on South Africa and that country's own plans for development in the region.

"We want to work with South African supermarkets to help regional suppliers meet their standards. We will help to set up at least three one-stop border posts in the region, working with SADC, the Common Market for Eastern and Southern Africa (COMESA) and the South African Revenue Service. And we want to support infrastructure development, aiming for a 24 percent reduction in transport costs for landlocked countries by 2010", said Mr. Shafik.

To download the Regional Plan, go to *http://www.dfid.gov.uk/pubs/files/southern-africa-regional-plan.pdf*.

NEWS BRIEFS FROM AROUND THE WORLD

U.S. CONGRESS SCRAPS "STEP 2" COTTON SUBSIDIES

The U.S. Congress approved last month the removal of "Step 2" cotton subsidies, which are paid to exporters and millers to buy U.S. grown cotton.

"Step 2" subsidies, which are paid in addition to subsidies paid to cotton growers, were found by a World Trade Organization (WTO) panel to be inconsistent with international trade rules in a challenge brought by Brazil.

Producers in developing countries have been complaining that U.S. cotton subsidies undermine their ability to compete fairly in the international markets and dampen world prices for cotton.

Meanwhile, according to informed sources, Brazil has reportedly asked a WTO arbitration panel to reassess what retaliation Brazil would be authorized to impose on the US as a result of its successful challenge to U.S. cotton subsidies. Brazil argues that the US, though eliminating "Step 2" of its subsidies program, has done nothing to change other domestic support payments that were also mentioned by the WTO panel in its ruling on the issue.

The US has indicated it will not make changes to U.S. farm programs before a new farm bill is written or a new WTO agreement is reached.

EU FORMALLY ADOPTS REFORM OF THE SUGAR PROGRAM

European Union Agriculture Ministers on February 20th formally adopted controversial reforms of the EU sugar sector, according to a statement by the EU Commission.

The reforms, which will come into force on July 1, will bring the sugar program, which has remained largely unchanged for almost 40 years, into compliance with WTO rules.

The EU statement said the reform will "ensure a long-term sustainable future for sugar production in the EU, enhance the competitiveness and market-orientation of the sector and strengthen the EU's position in the current round of world trade talks."

US – KOREA FTA TALKS TRIGGER CONCERNS AMONG INDUSTRY AND FARMERS

The US and South Korea trade talks, which were launched in early February, have triggered concerns in both countries.

The US's three largest auto-makers – General Motors, Chrysler, and Ford, are concerned about the potential impact of a free trade agreement (FTA) with Korea on the industry.

At a hearing before the U.S. Senate Democrats in Washington, D.C., the president of the Automotive Trade Policy Council in Washington, D.C., Stephen Collins, claimed that South Korea has made it extremely difficult for foreign operations to be successful in its domestic market through "unfair currency manipulation".

In South Korea, farmers are worried that an FTA with the US would lead to a flooding of the Korean market with US agriculture produce. But the Korean Ministry of Agriculture and Forestry, in a bid to allay farmers' fears, vowed to use any necessary measures to reduce the impact of the agreement on domestic farmers such as offering minimum prices for products and a special income support program.

If concluded, the agreement would be the biggest free trade pact that the US has concluded since the North American Free Trade Agreement (NAFTA) with Mexico and Canada in 1993. South Korea is the tenth largest global economy and the US's seventh largest trading partner. Trade between the two countries reached more than US$72.5 billion in 2004. The US hopes that a free trade pact with South Korea would allow the US to maintain economic influence in Asia along with the highly competitive China.

The US trails China as South Korea's second biggest trading partner. In addition, the majority of Seoul's foreign direct investment comes from the US.

The US – Korean FTA negotiations are expected to conclude by April 2007.

BRAZIL EXPANDS EXPORTS OF ETHANOL

Brazil saw its exports of sugar cane-based ethanol grow dramatically over the past year as high oil prices spurred international buyers to look for cheaper alternatives. Brazil's ability to produce ethanol from sugar cane – the most advanced alternative to petroleum for mass scale use – has made it a competitive player in the global energy market.

The Agricultural Ministry expects domestic and foreign demand for ethanol to increase to approximately 6 billion gallons a year by 2010. Current demand is about 4 billion gallons a year.

Although Brazil produced 13 million gallons of ethanol in 2005, it is currently in talks with the United States, China, and India to export 65 million gallons over the next few years.

Japan is currently considering a deal to import up to 1.6 billion gallons of Brazilian ethanol by 2008.

Brazil reduced its reliance on foreign oil imports since the oil crisis in the mid 1970s. It cut its oil imports by US$400 billion by relying on home grown fuel. More than 80 percent of new cars that are sold in Brazil are equipped to use both ethanol and gasoline.

Last year, South Africa's Cane Growers Association Vice Chairman, Tim Murray, said in an interview that South African farmers were considering converting their sugar crops to ethanol to power future cars.

INSIDE THE WTO

CHIEF OF AG NEGOTIATIONS TO IDENTIFY ISSUES WHERE CONVERGENCE HAS EMERGED

Chairperson of the Agriculture Negotiations, Crawford Falconer, told Members that he will start drafting a "reference paper" on a number of issues where there has been a convergence among Members. Falconer indicated that his paper will be designed to evolve into draft modalities, based on inputs from the negotiations.

Falconer, who was speaking to Members at the end of the second session of Agriculture Negotiations since the Hong Kong Ministerial, warned however that Members are still far from striking a deal on any of the key issues.

"On the whole, there has been some convergence and more clarity about the eventual shape of draft 'modalities', but the discussion has not entered the zone of a deal", he told members in an informal meeting on February 17.

Discussions on export competition focused on food aid and how to prevent it from distorting competition in export markets. Falconer said a "shape" or "shadowy outline" is emerging on the issue and that it will be reflected in the reference paper.

On the 'safe box' – emergency aid which Ministers agreed in Hong Kong should be protected – participants discussed the use of 'triggers' for food aid. One of the questions that members discussed is whether declarations by intergovernmental organizations should be sufficient to trigger food aid under the 'safe box' or whether additional definitions of emergencies are needed. Participants recognized that the 'safe box' should also cover situations where donor governments might have to act before the international organizations declare an emergency.

For food aid that is outside the 'safe box' – i.e., not an immediate emergency – the debate continued on whether this should be given only in the form of cash or monetized – i.e., sold or re-exported to raise cash. Falconer suggested that, despite differences, Members were willing to discuss compromise.

On domestic support, Falconer said discussions bore little fruit as Members' positions remained largely unchanged.

There was little convergence on the criteria for 'green box' support which will remain unlimited and exempt from reduction commitments. Some Members, including the G-20 coalition of developing countries, proposed tightening existing criteria for the 'green box'. Developing countries also proposed introducing new criteria that would make it easier for them to support development objectives.

Market access remained the most contentious area in Agriculture Negotiations, Falconer said. There was no convergence on the treatment of 'sensitive products' which Members may designate for cuts lower than those required by the formula.

AFRICAN COUNTRIES CALL FOR FORMULA WITH STEEP CUTS ON COTTON SUBSIDIES

Four African countries tabled a proposal late last month for cutting and eventually eliminating trade-distorting domestic cotton subsidies.

Sources at the WTO say the proposal, submitted by Benin, Burkina Faso, Chad and Mali, is spelt out in a formula designed to ensure that the cuts on cotton will be substantial even if those for agriculture as a whole were modest. The cuts, according to the proposal, would take place over a period of time that is much shorter – about one third – of the implementation period for other cuts in agriculture subsidies.

The paper also calls on WTO Members to agree by the end of April on eliminating all trade-distorting domestic support and agree on a date for eliminating these subsidies before the end of the Doha Round of trade talks.

LITTLE PROGRESS IN NAMA, MEETING HK DEADLINE UNLIKELY

According to sources close to the negotiations, the three negotiation sessions on NonAgricultural Market Access (NAMA) achieved little progress on the biggest outstanding issue in the talks – the tariff reduction formula.

Negotiations suffered a setback after Trade Ministers from the EU, the US, Australia, Brazil, India, and Japan (now referred to as the 'G-6') failed to achieve a breakthrough on key issues in the NAMA and Agriculture negotiations.

Negotiators had hoped that the London meeting, which took place on March 10-11, would lead to an agreement on some of the contentious issues and help them meet the April 30 deadlines set in Hong Kong for agreeing on full modalities for tariff cuts. But the failure of the meeting made it increasingly likely that negotiators will not meet this deadline for setting detailed negotiating modalities.

Meanwhile, the US and European Union have agreed to coordinate more closely on developing a formula for tariff reduction. During a meeting in Washington at the end of last month between U.S. Trade Representative, Robert Portman, and EU Trade Commissioner, Peter Mandelson, the two sides also agreed to coordinate their work more closely on services, according to media reports

On the tariff reduction formula, the US and EU agreed to move forward on the basis of a Swiss formula, where deeper cuts are applied to higher tariffs, with coefficients of 15 for developing countries and 10 for developed countries.

INSAT FOCUS

PRIVATE SECTOR SEEKS A VOICE

The past few months have seen increasing involvement from the private sector in Southern Africa in formulating national trade and economic policies. Yet private sector participation in policymaking at the regional level remains *ad hoc* and limited. When participation does happen, sectoral interests are promoted while overall issues that affect the private sector more broadly are neglected.

Recent examples of private sector advocacy for improved policies include heavy lobbying by the business sector in Lesotho for lower taxes and the campaigning of the Botswana Cattle Producers Association for higher prices from the monopoly Botswana Meat Commission (BMC). During the first quarter of 2006, the Government of Lesotho eliminated taxes on income generated from exporting manufactured goods outside the Southern African Customs Union (SACU) (see page 8). In Botswana, the BMC increased prices by an average of 40 percent in an initiative aimed at encouraging producers to expand their activities and, consequently, revive meat exports which have fallen significantly over the past few years (see page 19).

In Namibia, the Government has set up a national forum that, for the first time, formalizes private sector participation in drawing up the country's trade policies. The National Trade Forum brings together public institutions and key private sector players to discuss and advise the Government on economic and trade policies (see page 4).

Business interests have also been trying to assume a higher profile in regional and international trade negotiations. In an unprecedented effort, several businesses and civil society organizations (most notably the South African Institute of International Affairs) have joined forces to assess the potential impact of a free trade agreement between SACU and the US on businesses in Southern Africa and place their concerns on the negotiations agenda. Policy papers are doing the rounds, working groups to discuss the agreement are being established within business organizations and several seminars are being planned to share experiences with others who negotiated free trade agreements with the US.

But such efforts at the regional level are quite rare and, in this particular case, came at a time when the negotiations seem to be "on life support", as one observer put it.

Laurraine Lotter, Executive Director of the Chemical and Allied Industries' Association and head of the Trade Working Group in Business Unity South Africa (BUSA), says the involvement of the private sector in policymaking in the SADC region is "almost non-existent".

The weak engagement of the private sector in shaping economic and trade policies is not new to Southern Africa. For decades, governments in the region formulated economic and trade polices and drew up strategies that directly impacted, and often harmed, businesses with little more than nominal participation from the private sector.

Private sector participation in economic policy making at the regional level becomes increasingly critical as countries move towards greater regional integration and begin to negotiate free trade agreements as a regional grouping.

Absence of an Effective Regional Business Body

Private sector sources say several factors have limited, and continue to limit, involvement of businesses in formulating economic and trade policies at the regional level.

Undoubtedly, the absence of an effective regional structure with a clear mandate for coordinating and facilitating private sector participation in setting economic and trade policies has been a major constraint. Other constraints include the limited economic impact of regional trade agreements and the weak capacity of many private sector organizations throughout Southern Africa.

At the end of 2004 a new regional body was created to represent the private sector at the regional level. Prior to that, the Association of SADC Chambers of Commerce and Industry (ASCCI), which brought together national Chambers of Commerce and Industry, was the only organization recognized by SADC as representative of private sector interests at the regional level.

During 2004 regional sectoral bodies such as the Mining Industry Association of Southern Africa (MIASA), Southern African Enterprise Network (SAEN), SADC Bankers Association (SBA) and Southern African Confederation of Agricultural Unions (SACAU), expressed the feeling that they were not represented by ASCCI at the regional level and met with the SADC Secretariat to discuss their intent to form a new regional body. According to a press release the SADC Business Forum (SBF) was thus launched in November 2004 to improve cooperation among regional business organizations and become the "apex dialogue partner of SADC – the Secretariat and Institutions".

The main issue on the SBF's agenda since its establishment has been clarifying the roles of the public and private sectors and establishing a framework for a shared public-private vision on economic and trade issues. The SBF also intends to address constraints to trade and economic liberalization in SADC.

The SBF hopes to overcome the problems experienced by ASCCI, but it remains to be seen whether the creation of a new institution will enable to the private sector to take up a more proactive role in regional policymaking.

ASCCI, established in 1999, had great ambitions for promoting private sector interests with governments in the region. But soon after its establishment, and following several relocations of its Secretariat around the region, the association's focus shifted to preserving its own continuity.

ASCCI's ability to coordinate regional business activity was further undermined by the weak capacities of national private sector organizations, which led the association to concentrate on building the capacities of various business organizations around the region rather than promoting and coordinating private sector efforts at the regional level.

From the outset, ASCCI depended on donor funds to execute its regional agenda. Currently, ASCCI's main donor, the German Agency for Technical Cooperation (GTZ), is holding back on further funding commitments pending a clear business plan from the ASCCI Secretariat which now permanently resides within the Chambers of Commerce and Industry South Africa (CHAMSA).

The early development of the SBF mirrors some of the experiences of ASCCI, but also points to other potential challenges.

While there has been consistent involvement of the regional business organizations who expressed the initial desire to establish a new regional body, the process also relied heavily on the financial and technical support of ProInvest, an agency of the European Commission. A year and half after the launch of the SBF, the organization has not yet established a permanent Secretariat and most of its activities continue to be led by its members rather than by the SBF as an organization.

At present, ten regional business organizations, including ASCCI, are members of the SBF, and the Secretary of the SBF, Mr. Ishmael Sunga, recently told INSAT that they had also received an application for membership from the regional textile association. However, many sectors are not represented within the SBF, and it is not clear how sectors that do not have their own regional business organizations will be able to join the SBF. Sectors with weak regional bodies may also find it difficult to get their concerns on the agenda in an organization that is dominated by very strong regional sectoral bodies with a long history of lobbying for their interests at the national and regional levels such as the Federation of Eastern and Southern African Road Transport Associations (FESARTA) and Southern African Confederation of Agricultural Unions (SACAU).

"Development of well considered positions for different markets remains a significant challenge for business in a collective sense as sectors that are less well organized are not able to reach enterprises in the sector," says Lotter.

Moreover, the SBF's formal engagement with SADC continues to wait for the signing of a Memorandum of Understanding that will institutionalize their interactions with SADC. According to Noko Murangi, Director of Trade Industry, Finance and Investment at the SADC Secretariat, this is not expected before August 2006 – almost two years after the SBF's establishment.

Lack of Leadership

Developments in the regional powerhouse, South Africa, also impact on the region. Private sector organizations in South Africa have had to address the challenge of finding their voice in the new democratic South Africa. Business organizations have sought to cast off their apartheid legacy which resulted in them being organized along racial lines. To date, this has resulted in two national bodies with overlapping mandates and incomplete internal transformation processes.

According to Peggy Drotsky, Head of Policy and Advocacy at CHAMSA, "some of the things that the constituents would do before, CHAMSA does…[therefore] we are sometimes in competition with our constituents".

"It has not turned out how we thought or how we anticipated," laments James Lennox, ex-CEO of the South African Chamber of Business (SACOB), who was actively involved in the process.

National level, multi-sector participation of the private sector in the policy process in South Africa is prescribed by the National Economic, Development and Labor Council (NEDLAC) where Business Unity South Africa (BUSA) exclusively represents private sector interests. The debates within this forum are dominated by domestic and industrial issues. More specifically Black Economic Empowerment (BEE) has become the primary focus of businesses in the country, sources say.

The transformation process has led to the virtual demise of the structures within the various business organizations that dealt with trade policy issues, and a trade policy committee within BUSA was established only very recently.

South Africa relies on the NEDLAC process to incorporate the views of the private sector into its positions in regional trade negotiations and does not take private sector representatives to regional meetings.

As a result, many analysts characterize private sector involvement in trade policy making in South Africa as 'reactive' and '*ad hoc*'.

Moving Forward

Small and medium-sized enterprises in Southern Africa have limited experience in coordinating multi-sector activities and lobbying for policy change within their national governments, and inevitably have limited resources to dedicate to protecting their interests in national and regional policy processes.

Establishing new institutions such as the SBF may be a positive development but it will be necessary for the SBF to guard against the pitfalls that ASCCI encountered in its efforts to represent private sector interests within SADC. An effective SBF requires the commitment of the private sector to allocate sufficient resources to carry out its mandate.

Ishmael Sunga, SBF Secretary, says there is "so much that the SBF can do" and that the organization needs to assign a full-time employee if it is to play its role effectively. "I think we need to gain more momentum and begin to be a bit more proactive than we have been in the past," he says.

The modest successes of the private sector in lobbying nationally for pro-business policy change represent a positive development and should be regarded as a building block for ensuring an effective voice for businesses regionally as they seek to compete in the global economy.

WE SPEAK TO...

JOSHUA SETIPA, COUNSELLOR, OFFICE OF THE WTO DIRECTOR-GENERAL

How do you see the role of the private sector in trade negotiations?

The private sector is, at the end of the day, the engine of any trade in countries. This fact needs to be more underscored, but we sometimes fail to do so because we get so locked in these negotiations. Countries don't trade, it is the private sector that trades, so they need to be brought along as we move forward.

A good example of successful private sector participation in the WTO process was the role of the pharmaceutical industry in 2001/2 when countries were negotiating the TRIPS/public health agreement to try to improve access to medicine to treat AIDS and TB and other pandemics. The pharmaceutical industries in the US, Brazil and India were very, very central to those negotiations – they lobbied governments, they provided solutions, and they came up with ideas which at the end of the day led to the final package being adopted.

So, if it is approached well and it is based on informed discussions where each stakeholder sees their role and sees themselves as part of the final solution, then yes, it can yield very positive results. But these are very few – there are only one or two cases where this has happened – it is not something yet which is regularized across all the negotiating issues.

Another good example is the current discussions on Aid for Trade where we are looking at new funding mechanisms to provide support particularly for infrastructure and supply-side issues. Now these will have to be jointly financed by private sector sources and through public funds. So the private sector has to be part of the discussions if they are going to play a role.

In your experience, has the level of participation of the private sector in Southern Africa been sufficient to allow them to play this role?

NEDLAC [the National Economic Development and Labor Council] which represents three stakeholders – government, the private sector and labor – is very active in South Africa and provides a forum for the exchange of views on what the South African position and approach should be in these negotiations.

So I think that in the case of South Africa there are definitely inputs, but it is more sectoral based, it is not overall. So there is definitely some room for improvement as to how those inputs feed into the process.

Another country that has from time to time brought along the private sector is Mauritius. In fact, the Mauritius Chamber is the only one that I know of which came and opened an office in Geneva specifically to monitor the negotiations. So, this is also a positive development, at least in that it shows that they do appreciate the potential impact that this could have on their ability to compete – whether in the domestic market or in their export markets.

[However], I think that at the national level in most countries in Southern Africa, the consultative process is very much interdepartmental. There is not much input from the private sector and in most cases it is a reflection of the limitations that exist as far as the private sector interest groups are concerned – they are not well-organized and they are not well structured. So they have not really been able to articulate their interests because they don't understand the issues. As a result they do not make a very good partner and therefore you see policies that are made without the input of the private sector. I think that is a limitation most countries have in as far as the negotiations are concerned.

What has been your experience with regards to regional efforts to organize the business sector in Southern Africa?

In as far as the SADC Chamber is concerned, you just look at the process of negotiating the SADC Trade Protocol, private sector impact was almost zero… in terms of guiding governments in how they should approach the Protocol. Or, in the current SADC EU EPA negotiations, they are nowhere near the process – you don't feel their presence. You don't even see them intervening when it comes to resolving regional trade issues – whether it is resolving bottlenecks across borders, for example, goods from Zambia into South Africa or vice versa – they are not anywhere. You only see them, for example in exceptional cases like for example, when Woolworths complained through the DTI [South African

Department of Trade and Industry] that it could not get its bread into Botswana. But it is very selective. It is not well coordinated and it is not driven by a policy or driven by an awareness of the role across the board that they can play in the process. So, it is not a well-coordinated approach and as a result, for me, it has never really made much of an impact on shaping regional trade policy.

What are the implications of this at the regional and multilateral level?

At the regional level the main implication is that most times the positions that you see being advanced by a country do not reflect the reality on the ground in terms of where their strategic interests are: what sectors have the potential to grow and where they can be competitive. There is no supporting information or inputs from the private sector that would support such positions. So most positions you find are taken more on a group level in terms of taking into account what the trend is in the region towards an issue, not based on national strategic assessment So they are lacking in that sense.

Why do these limitations exist in the private sector?

I think the biggest cause is the capacity of the private sector to organize itself to engage the government and to insist on being an equal partner to government. To ensure that the information that flows to governments in terms of the negotiations also flows to them and also that they are consulted and that they are part of the process – in terms of even participating in Ministerial Conferences. The private sector doesn't participate and even if it participates it is just symbolic, they do not have an impact on the positions that countries advance. Also, the fact that the relationship between governments and the private sector in as far as government trade policy is concerned is also very, very weak.

How can these challenges be overcome and where does the responsibility lie?

I think it goes both ways. I think the government has a responsibility to secure and solicit inputs from the private sectors and understand what the challenges are that the private sector faces. But equally the private sector has the responsibility to mobilize itself and to mobilize its resources to engage the government, to provide not just a critique but also to guide the government on what its priorities are and on what the situation on the ground is and where they think their strategic interests lie. Otherwise, the government is negotiating with blindfolds on.

Because it has no view of where its potential competitiveness lies – whether it is in the region or whether it is globally – it has no real picture of what it should do to foster and let the private sector grow. And government often does not have the capacity to appreciate what some of the measures that they put in place do in terms of protecting or even undermining the private sector. For example, you take tariff policy, governments impose high tariffs on some sectors and therefore these sectors are not actually becoming competitive. The day that those tariffs go, it gets wiped off. A good example is the South African textiles industry which is not competitive because for a very long time they lived in an environment where they enjoyed very high levels of protection by the state.

What are the challenges faced by governments and intergovernmental organizations in incorporating private sector inputs into their policy positions?

The biggest challenge is the same that NGOs face in as far as participation in these intergovernmental discussions or fora are concerned. Because of their limited understanding or appreciation of what each stakeholder can bring to the table – there is a lot of suspicion. And private sector also, to their disadvantage, they are not very pragmatic. They look at things only from one angle which is to always to try and secure the highest level of protection. They are the ones that are always pushing countries to refuse certain efforts to open up sectors where they are involved. So they are not very helpful in that, and as a result, there is a bit of a reluctance on the part of some governments to open up and let the private sector participate. But they still do.

Now, as far as the WTO is concerned, as you know, the WTO is an intergovernmental forum, so it is very difficult for the WTO to insist to Member States that they should bring the private sector along every time they come here. But it is something that they themselves already underscore as an important thing to do. When we had a meeting a few days ago on Aid for Trade hosted by UNCTAD and the Commonwealth Secretariat, there was a very strong representation from the private sector from India which was quite helpful because they brought with them experiences in as far as the issues are concerned. But still, it is not a widespread approach – you don't see that in a coordinated manner.

What can be done in Southern Africa to ensure that ten years from now there is more effective participation from the private sector?

Of course the issue of resources is very important and it determines the ability of the industry to represent its interests. But at the end of the day, if you look at all the major industries in the region which have the potential to export – whether it be regionally or globally –they could also contribute some part of their resources/their profits towards improving their understanding of the issues, towards improving their lobbying capacity, towards improving their participation. I mean, it is a sacrifice, just as a government has to sacrifice part of its resources to send people to Geneva to negotiate – it is a decision that they have to make. They first have to get convinced that in the long term they will benefit from having permanent representation – until such time they will not be prepared to incur the expenses, to make compromises. I think it is a matter for them, at first, just realizing their strategic interests in the process and they will then be able to come up with the resources.

And of course, governments should, where possible provide support in terms of helping them coordinate themselves, meet them half-way in making sure that they become able partners.

GUEST PERSPECTIVE

ENGAGING THE PRIVATE SECTOR IN SHAPING AFRICA'S BUSINESS AND TRADING ENVIRONMENT

By Carl Noffke, International and Political Consultant, Former Diplomat and Newspaper Editor

If one takes a look at the scorecard of successes in the global economy, private enterprises play an essential role in promoting economic growth and development.

According to the Chief Executive of the New Partnership for Africa's Development (NEPAD), Prof. Firmino Mucavele, a solid foundation has now been laid for the successful implementation of NEPAD programs and for an environment for their sustained development.

The question is: What now? Critics of NEPAD have quite rightly criticize both the NEPAD Secretariat and the Heads of State for not utilizing (with few exceptions, such as the successful e-Schools project) the tremendous resources of private enterprise in the huge planning exercise. The fact is, organized private enterprise does indeed play only a minuscule part in the NEPAD structure.

The cumbersome, bureaucratic and often ill-equipped NEPAD structures are rather surprising because a new business-oriented political leadership corps, determined to forge policies enabling the continent to play its rightful role in the global economy, has been emerging in Africa during the past decade. Key nations in Africa, such as Nigeria, Senegal, Angola and South Africa play an important role in the rapid transformation of Africa. To some extent, however, the tremendous role of the private sector in promoting the rapid acceleration of economies has been grossly neglected, and this aspect should receive priority attention.

On the road ahead, the public sector should actively involve the private sector in ensuring real, dynamic economic growth in Southern Africa.

NEPAD has been receiving substantial offers of economic aid from a number of sources, particularly the Group of Eight (G8) nations and lately from Japan and India. One should remember that NEPAD's role in Africa is to the infrastructure on which economic growth would be based.

Private enterprise is essential in the quest to jump-start economies. The entire continent and especially the countries without oil reserves in Southern Africa (with the exception of Angola) desperately need foreign direct investment (FDI). Direct investment capital is most likely to be attracted to countries pursuing market-oriented economic reforms. Dr. Monde Mnyande, Senior Deputy Chief Economist and head of the South African Reserve Bank's Research Department, reminded us in August 2004 which forces propel FDI flows. In his address at a business meeting in Johannesburg, Dr. Mnyande warned that while FDI flows are based on long-term considerations, they also depend to some extent on aspects of the overall investment climate, such as the rule of law, the sanctity of property rights and the transparency – or lack thereof – of the policy-making process.

The continent, and especially Southern Africa, has vast mineral resources. Oil and gas along the West Coast have stimulated tremendous investment. Transport, power generation and telecommunications are focal points, especially for future private sector involvement.

To summarize: agriculture, fisheries, and forest products; chemicals, petroleum and energy-related products, minerals and metals, textiles and apparel, and certain transportation equipment attract the majority of overseas interest. These are indeed the sectors which should provide tremendous opportunities for economic growth.

Many African countries have opted for a balance between public and private enterprise. For example, in South Africa, the State has preserved its established (but not exclusive) role in certain transportation sectors (such as railways, harbors and the national airline South African Airways) while leaving the rest of the economy to private enterprise. One should take into account that South Africa's well-established parastatals like Eskom, Transnet, the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA) are active in creating an environment more conducive to private enterprise in the region.

SASOL, the synfuel and chemicals giant of South Africa, with international operations now flowing from its innovative manufacturing and business operations, is a textbook example of the value-added services that result from this type of public to private enterprise transformation.

Southern Africa's minerals and metal sector remains a dominant sector, being a big earner of foreign exchange and attracting considerable international investment. For example, in 2003, 68 percent of U.S. imports from sub-Saharan Africa were platinum-group metals, which were almost all from South Africa, and diamonds, mostly from South Africa, the Democratic Republic of the Congo and Angola. U.S. iron and steel imports also increased, reflecting the continued growth of iron and steel industries in South Africa, Tanzania and neighboring countries.

Southern Africa, however, should not be seen only as the "Persian Gulf" of metals and minerals to the developed and rapidly developing countries, such as China and India. Southern Africa could also excel in niche manufacturing areas. South Africa has lately become a dominant producer of motor vehicles and motor-vehicle components for export markets, with projected exports in 2006 estimated at approximately 200,000 vehicles.

NEPAD intends to resolve the problems of inadequate infrastructure which hinders trade and investment in many countries in Southern Africa. What is being planned and implemented through NEPAD is impressive. What bothers private enterprise is the negligible involvement of the business sector in crucial decisions, and their limited participation in meetings.

It is of vital importance that progress is made with respect to transparency, corruption, and regulatory reform.

Successful regional business institutions and domestic business chambers in Southern Africa play a key role in attracting foreign investment. The Southern African Development Community (SADC), with headquarters in Gaborone, will be able to attract much-needed foreign investment once its potential has been fulfilled. The Southern African Customs Union (South Africa, Botswana, Namibia, Lesotho and Swaziland) at present offers what foreign investors need: safe and secure markets and a business environment conducive to trade.

The Southern African region needs to sharpen its focus on entrepreneurship.

One can easily theorize about what is required to transform Southern Africa economically. The infrastructure is being attended to reasonably well at this stage. Well-organized business institutions in South Africa are already assisting in the development programs of the Southern African region. International business organizations, such as the American, British, German and French business chambers, are already playing an important role. The South African Chamber of Business' (Sacob) Business Confidence Index promotes both domestic and international interest as well as investment, while the Business Against Crime Initiative in South Africa focuses attention both on blue collar and white collar crimes in the country. These initiatives help to promote business confidence.

South Africa has in place a large number of state incentives to promote private initiatives, such as innovations in research and development, incentives for enterprise development, incentives for the enhancement of competitiveness, and incentives for export promotion and development. These steps, coupled with treasury guidelines to promote economic growth, should form useful guidelines for the rest of the region.

ESSENTIAL REPORTS

UNCTAD's **Developing Countries in International Trade 2005: Trade and Development Index**, a report by the UNCTAD Secretariat, examines the trade and development performance of countries, highlights the interaction between the two, and shows how a number of factors can impact both trade and development outcomes. The report can be accessed at: *http://www.unctad.org/Templates/webflyer.asp?docid=6443&intItemID=1397&lang=1&mode=downloads.*

The **2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building** (TRTA/CB) presents an overview of TRTA/CB committed between 2001 and 2004 based on data reported to the WTO's Trade Capacity Building Database. The searchable database contains over 15,000 national and regional activities from 2001 to 2006 provided by more than 40 bilateral donors and multilateral agencies and can be accessed on *http://tcbdb.wto.org*. A statistical analysis option allows for quantitative analysis of trade capacity building data by category.

The report shows recent trends in assistance related to two significant Doha Development Agenda developments: Cotton-related decisions by the WTO General Council in the 2004 July Package and the launch of WTO negotiations on Trade Facilitation. The report is available at *http://tcbdb.wto.org/publish/2005%20Report-Final.pdf.*

The Economic Commission for Africa's **Meeting the Challenges of Unemployment and Poverty in Africa**, finds that despite relatively high growth rates in Sub-Saharan Africa, much of this growth is driven by oil export revenues while labor-intensive industries such as textiles and apparel face severe challenges. The report is available at *www.uneca.org/era2005/overview.pdf.*

TRADE RESOURCES

SOURCES ON TARIFFS, TRADE REGULATIONS AND STANDARDS

The **AccessGuide**, *http://www.cbi.nl/accessguide/*, serves as a database for developing country exporters seeking entry into the European Union market. It offers information on the legislation and market requirements for the EU. The guide recently added information on Norway which participates in the European Economic Area (EEA) and therefore adheres to EU legislation even though it is not an EU member. In addition, exporters can access actual case studies that illustrate how other companies have successfully implemented standards and maintained market access.

Exporters from developing countries who wish to access the EU market can also refer to the **EU Helpdesk** for assistance. At *http://europa.eu.int/comm/trade/issues/global/development/pr140605_en.htm* they can access information in English, Spanish, and Portuguese.

Trade Attaché is a database that provides both importers and exporters with a vehicle through which they can locate and contact one another. The database includes 500 million companies from over 200 countries and enhanced listings and banners for traders. Viewers are able to search for contacts by product, industry, company, and SIC or HTS Code. In addition, the international trade directory offers a pro-active online chat support.

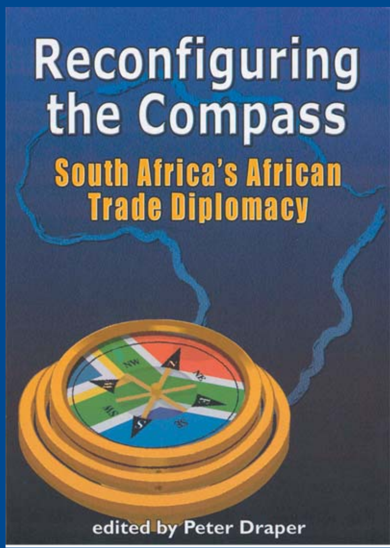
More information on Trade Attaché can be found at *www.tradeattache.com* or *http://216.55.181.211/index.jsp*.

Africa and the WTO: 100 Key Words, published by the Economic Commission for Africa sheds more light on the jargon used in multilateral trade negotiations. The book also discusses projections for the final outcome of the Doha Round and what is necessary to achieve the initial objectives of the Round from an African perspective. For more information, visit: *www.uneca.org*.

Weekly Customs, Excise, Tariff and Trade Remedy Summary Notification. The Trade Law Center for Southern Africa (tralac) and Customs and Trade intelligence (CTi) will be launching a webpage containing information on customs, excise, tariff and trade remedies within the BLNS countries – Botswana, Lesotho, Namibia and Swaziland. According to tralac, the website will serve as an early warning system and provide a database of such investigations and their progress.

In order to register to receive such information, you will need to be an interested party that is based in one of the BLNS countries. Access to the site will be restricted. Please contact tralac at *info@tralac.org* for more information.

NEW RESEARCH



Late last year the USAID Trade Hub hosted the Botswana launch of a new book edited by Peter Draper, Research Fellow at the South African Institute of International Affairs. **Reconfiguring the Compass: South Africa's African Trade Diplomacy** is a collection of six chapters by different authors. The launch at the USAID Trade Hub took the form of an intimate roundtable discussion with high-level participants from around the region. On the basis of his own analysis and the discussions, the respondent, Dr. Clement Ng'ong'ola, of the University of Botswana's Law Department, wrote a very comprehensive review of the book which can be accessed on *www.satradehub.org/bookreview*.

Trading on Time, a recent report by the World Bank, looks at the effect of time delays on exports and finds that time-consuming customs procedures and inefficient transportation systems affect exports as much as tariff barriers. The report finds that it takes an average of 48 days to move a container from the factory gate and load it onto a ship in sub-Saharan Africa and that each additional day that a product is delayed prior to being shipped reduces trade by at least one percent. But if these countries were able to reduce the time to export by 10 days, sub-Saharan African countries would be able to expand their export volume by approximately 10 percent. Visit *www.doingbusiness.org/documents/trading_on_time_full_report.pdf* for access to the complete study.

A new report entitled **Responsible Competitiveness: Reshaping Global Markets Through Responsible Business Practices** encourages business to be competitive responsibly. Africa ranks as one of the top emerging economies. Mauritius is ranked among the good performers while Zimbabwe and Algeria, on the other hand, had the lowest scoring overall. Their rankings are tied to their responsible competitiveness. For the full report, see *http://www.accountability.org.uk/*.

INSIDE THE TRADE HUB

BOTSWANA POISED TO BECOME EXPORTER OF MELONS

In 2007, Botswana's farmers will start commercial production of at least 30 hectars of selected varieties of sweet melons and watermelons for export to South Africa.

This is the result of a successful first series of trials to farm melons in Botswana in order to fill a gap in production during South Africa's winter season.

The first trials ran from September 2005 to February 2006 with support from Geest, a large South African-based food processing. Geest selected three varieties of sweet melons and seedless watermelons (needed for fruit salads exported to the UK) for further trials to be carried out during 2006.

Six farmers from the Gaborone area of Botswana were selected to participate in the initial trials. Twenty percent of the melons produced during the trials were sent to South Africa as samples and the remaining 80 percent were sold on the local market.

With a potential net profit of 40,000 Pula (US$7,500) per hectar, this high-value crop presents lucrative opportunities for these farmers and others who will be brought in for the second series of trials.

The technical assistance provided by the USAID Trade Hub in these trials has also led to further opportunities for Botswana farmers to export to South Africa and Europe.

BMC PAYS PRODUCERS HIGHER PRICES IN BID TO BOOST THE CATTLE INDUSTRY

In an effort to revitalize the cattle industry and increase incentives for raising cattle, the Botswana Meat Commission (BMC), which has a monopoly over Botswana's beef exports, has increased the prices it pays to producers by an average of 40 percent since the beginning of this year.

The price increase comes at a time when the Botswana cattle sector is facing significant difficulties due to declining exports. The sector's share in exports has fallen by more than 50 percent – from 3.4 percent in 1998 to only 1.3 percent in 2003 with only a slight recovery to 1.5 percent in 2004. Revenue from beef exports also reached a record low in 2003 with only 166 million Botswana Pula (US$30 million), down from 349 million Pula (US$63 million) in 1998.

The cattle sub-sector is the mainstay of Botswana's rural economy, with an estimated 20-25 percent of the country's households involved in cattle rearing as owners or employees. While the amounts are low, it remains the country's second largest foreign exchange earner.

Sources say that the recent increase in prices is aimed at spurring growth in the industry by encouraging more investments in cattle rearing.

The Minister of Agriculture told Parliament earlier this month that the Government has left the door open for further reviews of its policies on the cattle industry and, potentially, more price increases for producers.

Government efforts to boost the cattle industry, including the recent price increases, are in line with recommendations made in a USAID Trade Hub study by Dr. Keith Jefferis. The study, published in 2005, identified the low prices paid by the state-owned BMC as the main impediment to the economic viability and expansion of the sector.

With Trade Hub support, the Botswana Cattle Producers Association (BCPA) provides a strong voice to cattle farmers and is recognized as a key partner by the Government of Botswana.

INSIDE THE TRADE HUB

FILM SERIES EXAMINES TRADE AND COMPETITIVENESS ISSUES IN SOUTHERN AFRICA

Filming started early in the mornings and continued all day as the crew accompanied workers to their apparel jobs in the tiny mountain kingdom of Lesotho before the break of dawn and followed trucks from Southern Africa's economic hub, Johannesburg, through the seemingly endless desert that spans Botswana and Namibia to the port of Walvis Bay on the Atlantic Ocean.

All this hard work is paying off as the Trade Hub is putting the finishing touches on a series of five short educational films for use in dialogue and outreach activities in the region. The films will be launched at a regional private sector roundtable in May.

The documentary-style films, each 15 minutes in length, touch upon trade-related issues important to the region's competitiveness and aim to appeal to a broad audience.

Shot on location throughout the region, the films examine five inter-related topics: (1) the impact of trade preferences, with a particular focus on AGOA and the apparel industry in Southern Africa (using Lesotho as a case study); (2) business environment challenges in the region and initiatives to improve competitiveness; (3) building an effective private sector voice for policy change (using the Hub's work with the Botswana Cattle Producers Association (BCPA) as a case study); (4) improving trade facilitation by means of the Trans-Kalahari and Maputo Transport Corridors; and (5) HIV/AIDS from a business and economic perspective.

The films discuss the issues and challenges faced by countries in the region as they build global competitiveness and highlight initiatives and efforts to improve the business and trade environment in individual countries and the region as a whole.

Filming started in Lesotho's struggling textile factories in late November 2005 and moved on to Swaziland where the crew interviewed a broad range of people from the public and private sectors for the business environment and HIV/AIDS pieces. In Botswana, footage was gathered from farms, a cattle auction, an abattoir, and butchery for the private sector advocacy piece.

In February 2006, the team followed a truck from Gauteng to Windhoek along the Trans Kalahari Corridor (TKC) to identify remaining barriers to the efficient transport of goods in the region and to examine initiatives to improve the situation. They also drove along the Maputo Corridor to see how the TKC successes and lessons learned are being applied there.

Interviews with a privately funded orphanage, a well-known musician, private companies, and public sector officials in Mozambique, South Africa, Lesotho, Swaziland, and Botswana provided the material for the film addressing HIV/AIDS challenges for businesses.

The films are the brainchild of Lisa Yarmoshuk, Trade Hub Director, TFCB, and are being produced in collaboration with Emmy Award-winning journalist Hanson Hosein of HRH Media.

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